

Message Text

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ACTION ARA-10

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E.O. 11652: N/A
TAGS: EFIN, AR
SUBJECT: ARGENTINA'S EXTERNAL FINANCIAL POSITION

1. DURING MEETINGS WITH EXIMBANK OFFICIALS, CENTRAL BANK
DIRECTOR FRANCISCO SOLDATI AND BANCO DE LA NACION VICE
PRESIDENT CARLOS ETCHEVERRIGARAY BOTH GAVE BULLISH ACCOUNTS
OF ARGENTINA'S EXTERNAL FINANCIAL POSITION AND PROSPECTS.

2. SOLDATI PROJECTED A 1977 BALANCE OF TRADE SURPLUS OF
\$900 MILLION (SOMEWHAT HIGH IN EMBASSY'S OPINION) AND AN
OVERALL BALANCE OF PAYMENTS SURPLUS OF \$150 MILLION. HE
SAID THAT GROSS RESERVES, WHICH STOOD AT \$2.2 BILLION AT
YEAR-END 1976, SHOULD INCREASE BY \$150 MILLION, BRINGING
THE YEAR-END 1977 RESERVE TOTAL TO AROUND \$2.35 BILLION. HE
ESTIMATED NEW EXTERNAL FINANCING REQUIREMENTS AT \$600 MILLION
BUT AT THE SAME TIME SAID THAT HE DID NOT BELIEVE ARGENTINA
WOULD NEED TO DRAW THE SECOND TRANCHE OF THE IMF STANDBY.

3. BOTH SOLDATI AND ETCHEVERRIGARAY INDICATED THAT
ARGENTINA IS NOW IN THE COMFORTABLE POSITION OF BEING
SELECTIVE IN OBTAINING NEW EXTERNAL CREDITS FOR ARGENTINA.
THE CENTRAL BANK IS EXERCISING PARTICULARLY STRINGENT CONTROL
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OVER THE INTEREST RATES AND TERMS OF LOANS CONTRACTED BY
STATE ENTERPRISES. AS FOR THE BANCO DE LA NACION,
ETCHEVERRIGARAY INDICATED THAT HE HAD JUST TURNED DOWN AN
OFFER FROM A LARGE EUROPEAN BANK FOR \$100 MILLION LOAN
REPAYABLE AT FOUR YEARS AT 2.2 PERCENT OVER LIBO. HE ALSO
SAID THAT THE RECENTLY CONTRACTED \$60 MILLION IDB LOAN FOR
SILOS WAS RELATIVELY EXPENSIVE (8.5 PERCENT AND 1.25 PERCENT

COMMITMENT FEE) IN THE CURRENT INTERNATIONAL FINANCIAL MARKET AND HE HAS RECOMMENDED THAT THE LOAN BE CANCELLED (MRTINEZ DE HOZ REJECTED RECOMMENDATION).

4. COMMENT: ARGENTINA'S PROGRESS FROM VIRTUAL BANKRUPTCY IN MARCH OF 1976 TO A LEVEL OF RESERVES BY THE YEAR-END WHICH ARE THE HIGHEST IN ITS HISTORY IS TRULY IMPRESSIVE. THE BANCO DE LA NACION IS CONTINUING TO REGISTER A SUBSTANTIAL NET INFLOW OF FOREIGN EXCHANGE. HOWEVER, RATHER THAN CONTINUING TO BUILD UP RESERVES RAPIDLY, AND ADDING STRONG PRESSURES TO THE EXPANSION OF THE INTERNAL MONEY SUPPLY, IT IS CLEAR THAT THE GOA WILL PROCEED TO LIBERALIZE EXCHANGE CONTROLS (SEPTEL FOLLOWS ON MEASURES WHICH BECAME EFFECTIVE JANUARY 28) AND REDUCE ITS EXTERNAL DEBT. SWAPS, WHICH NOW TOTAL AROUND \$450 MILLION, SHOULD BE ELIMINATED IN 1977 (PREMIUM FOR FORWARD EXCHANGE COVERAGE IS NOW 66 PERCENT).
HILL

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